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DIRECTORATE OF  
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**C VIETNAM:** Government troops have beaten off Communist attacks on Kontum City and along the northern approaches to Hue.

The Communists mounted a heavy, tank-led assault on Kontum City on 26 May, but the South Vietnamese, aided by heavy air strikes, drove them back. Government troops spent the rest of the day clearing sappers from around the city's airfield, and by late afternoon they were said to be conducting limited clearing operations outside of town.

The Communists also attacked with tanks and infantry along the My Chanh defense line north of Hue, and one spearhead almost captured a key bridge on Route 1. The South Vietnamese had driven the enemy back by mid-day on 26 May, however.

The Saigon government continues to work to mobilize the populace. It has announced a revision in the system of student deferments that is designed to permit the drafting of 6,500 students by late summer. Students who lose their deferments will be sent to officer and NCO training schools; those still eligible for deferment will be organized to perform civic action, refugee relief, and first aid duties.

At President Thieu's request, the Senate vote on the emergency decree powers bill has now been postponed until after 29 May. Thieu reportedly has agreed to an amendment that would limit his powers of decree, but this has produced only a few extra Senate votes. The bill's passage therefore remains in doubt. [redacted]

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WEST GERMANY: Finance and Economics Minister Schiller's memorandum to the cabinet proposing significant budget cuts has been leaked to the press. This will compound the problems of the beleaguered Brandt government.

Schiller proposes less spending on defense, transportation, education, and science in an effort to control inflationary pressures. His recommendations also raise the specter of tax increases, a politically distasteful prospect to the governing coalition. Other cabinet ministers are fighting to preserve their budgets and, ostensibly, Chancellor Brandt's long-delayed program of socio-economic reforms. The controversy has been bitter, particularly between Schiller and Defense Minister Schmidt.

Brandt and Schiller are meeting this weekend in an attempt to resolve the cabinet dispute. Both men will meet with other top coalition leaders on 1 June to plan the over-all timing of the Bundestag's debate on the 1972 budget.

The leak of the memorandum has provoked a flood of press comment. Speculation about the source of the leak centers on Schiller. [redacted] Schiller is well aware of his political and psychological value to Brandt at a time when the coalition has lost its parliamentary majority and the opposition is eager to resume debate on the budget. Much to the dismay of Schiller, Brandt has given him no support. Other ministers have deplored the chancellor's lack of leadership on this issue. Brandt, however, wants to keep the matter from assuming crisis proportions and hopes to postpone the budget debate beyond the summer recess of parliament scheduled for 25 June.

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Brandt should be able to keep the budget off the Bundestag agenda. The parity existing between the government and the opposition in the agenda-setting Council of Elders will prevent any Christian

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Democratic Union attempt to force the debate. Because Bundestag deputies from West Berlin can vote on procedural matters, Brandt's coalition will have a slight majority in the Bundestag should the opposition raise objections on the floor. The exposure of the cabinet dispute to public view, however, will make his task more difficult and may encourage a sustained attack, if not another opposition no-confidence motion, against Brandt.

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URUGUAY: President Bordaberry may achieve his goal of forming a national coalition government.

Since taking office on 1 March, Bordaberry has been pressing Blanco leaders to join his minority Colorado administration. The Blancos have generally supported the President in his efforts to suppress violence. Last week conservative Blanco legislators reached a compromise with Bordaberry to grant him more time to secure the passage of a national security law. This 45-day extension of the state of internal war was opposed by liberal Blancos.

If some Blancos agree to come into the administration, it is likely Bordaberry will have to move toward legislative reforms in education, banking, and agriculture. The cabinet probably will resign in order to give the President a free hand in restructuring his administration. Bordaberry's supporters have expressed the hope that the conservative Blanco leader, retired general Mario Aguerrondo, will be asked to participate.

Opposition support for Bordaberry has increased in recent weeks because of the administration's success in repressing the Tupamaros. The terrorists apparently have lost the initiative since the violence last month. Security forces have been unusually effective in capturing valuable Tupamaro assets as well as taking approximately 65 prisoners.

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CHINA-AFGHANISTAN: Peking probably hopes its willingness to provide a new \$44-million interest-free credit to Kabul will increase its influence in Afghanistan.

Despite Afghan denials, the Chinese may be concerned that Kabul may press its policy of independence for Pakistani-ruled Pushtunistan, thus further undermining Pakistan, Peking's major ally in the region. [redacted]

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Although the new aid will permit Peking to retain an economic foothold in Kabul, China can not hope to compete with Moscow. China's only other aid financed \$28 million worth of agricultural and light industrial projects, now almost completed. The new credit is the first foreign commitment for Afghanistan's 1972-77 development plan. Despite extensive aid negotiations with Moscow during the last six months, the Soviets have not yet extended any new aid for the plan, although they are likely to do so. [redacted]

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WEST GERMANY: Chancellor Brandt is directing an investigation into the recent wave of terrorist bombings of US military and West German police and publishing installations. The government also is increasing its two-year old nation-wide effort to run to ground the anarchistic Baader-Meinhof gang, which the government believes is responsible for the bombings. The gang recently adopted the name Red Army Faction and has claimed responsibility for some of the bombings as a gesture of support for the "revolution" in Vietnam. The faction promises more action against US installations on 2 June, the anniversary of the founding of the Viet Cong's so-called Provisional Revolutionary Government. West German officials, meanwhile, are taking extraordinary precautions to guarantee the security of the NATO ministerial meeting in Bonn on 30-31 May.

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USSR-UN: The UN Conference on the Human Environment opens in Stockholm on 5 June, and the USSR has not lifted its threat of a boycott unless East Germany is given full participatory status equivalent to that of West Germany. Since the recent WHO Assembly vote postponing East German membership in WHO for another year, Moscow has made no subsequent overture to work out what it would regard as a palatable solution, such as an agreement that all decisions at Stockholm be based on consensus rather than voting. A Soviet broadcast on 24 May denied press speculation that the US-Soviet agreement on environmental co-operation would affect the USSR's position on the Stockholm conference. The USSR may judge that the West is sufficiently anxious to have the Soviets at Stockholm that it will move to break the impasse, but the Soviets are likely to await the results of the summit before making any basic decision.

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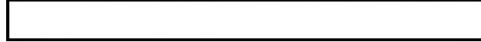
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NATIONAL INTELLIGENCE ESTIMATE

The United States Intelligence Board has approved the following national intelligence estimate:

NIE 65-72 "The Outlook for Zaire"



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